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AUTOMOTIVE MARKETING

NOVEMBER ISSUE/VOLUME 20, NUMBER 11

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AUTOMOTIVE MARKETING-ISSN 0193-3264 Published monthly (12 times a year) by Chilton Company, Chilton Way, Radnor, PA 19089. Chilton Co. is a division of American Broadcasting Companies Inc., New York, NY. Subscription prices (payable in advance) in the United States and U.S. possessions $36.00 a year. Canada, $70.00 a year. Single copies $3.50 each when available. U.S. only. SECOND CLASS postage paid at Wayne, PA 19087 and additional mailing offices. Postmaster send form 3579 at AUTOMOTIVE MARKETING, PO Box 2075, Radnor, PA 19089. Canadian GST Registration Number is R125906743.

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A LOOK AT THE PERFORMANCE MARKET

The performance parts market is changing as government regulations and consumers change. But there are ways to continue growing the industry.

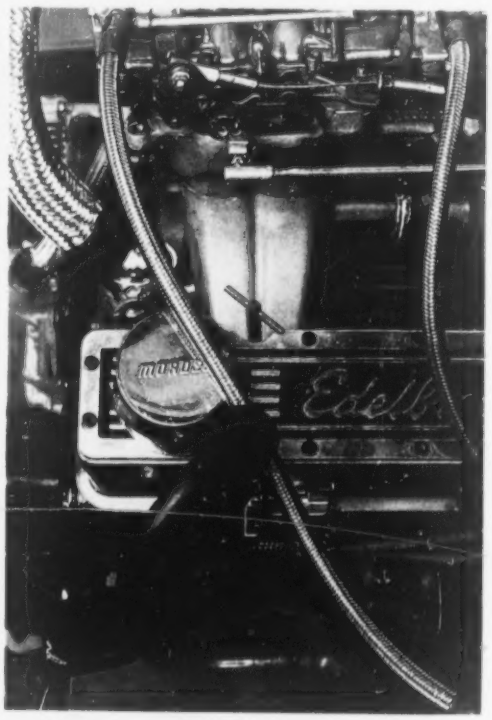
by **Phil Katcher**, Business Editor

The specialty equipment—performance and appearance accessories—market is a *big* market. According to the 1991 Specialty Equipment Market Association (Diamond Bar, CA) *Market Study*, some 38 million consumers purchased some sort of specialty product at least once in 1990. Jim Lang, Lang Marketing Resources, Inc., conducted the actual study for SEMA.

The annual study also indicates the size of the market by showing that the typical specialty consumer currently spends $2,787 annually on these types of products and services. Indeed, consumers who buy these types of products and services spend almost three times more per vehicle than the average amount vehicle maintainers spend on aftermarket products. The actual figures are $1,208 per vehicle for specialty consumers vs. $424 for the typical vehicle maintainer.

Even so, the performance industry faces some serious challenges to its future success. According to Michael D. Burroughs, Burroughs Associates, Inc., Nashville, TN, speaking at last year's Frost & Sullivan Conference, the major factors that impact the performance and specialty product marketplace are economic concerns, technological developments, emission laws, a weakening of multi-step distribution (the "merging market" effect), an increasing desire for the personalization of vehicles, and longer warranties.

Some of these things, such as the wish by consumers for personalized vehicles, are positive. Some, such as the changes in distribution patterns and the recession, are temporary phases which both retailers and manufacturers have to work their way through as best they can. And, it's been a tough time for many in the industry. SEMA President Chuck Blum recently admitted that, "There is more pessimism about prospects for business volume this year than at any time since the last recession." Even so, he added that "there are some bright spots."



But some, such as the longer vehicle manufacturers' warranties increasing emphasis on emissions regulations, have long-term implications and are essentially out of the control of those in the industry.

And, warns Burroughs, "Federal and state laws will only get tougher."

Government Regulations

These laws will cause a basic change in the traditional performance and specialty industry.

According to Burroughs' figures, right now people who modify their vehicles tend to modify for performance rather than just appearance. For example, 14% of those who modified their second vehicle, modified it for performance, while half that number modified it for appearance. Still, almost a quarter (23%) modified their second vehicle for *both* performance and appearance, while 19% modified their primary vehicle for both. (SEMA's 1991 study indicates that the average specialty consumer owns 2.4 vehicles.)

However, the emphasis on performance over appearance will change as regulations grow stiffer.

The president of one major manufacturer of a full line of performance parts, ranging from instrumentation to chrome dress up items, told *Automotive Marketing* at the recent Automotive Parts & Accessories (APAA) Show that government regulations designed to protect the environment are the biggest challenge to the performance industry. And, he said, this will mean a switch from an emphasis on performance to appearance in the future.

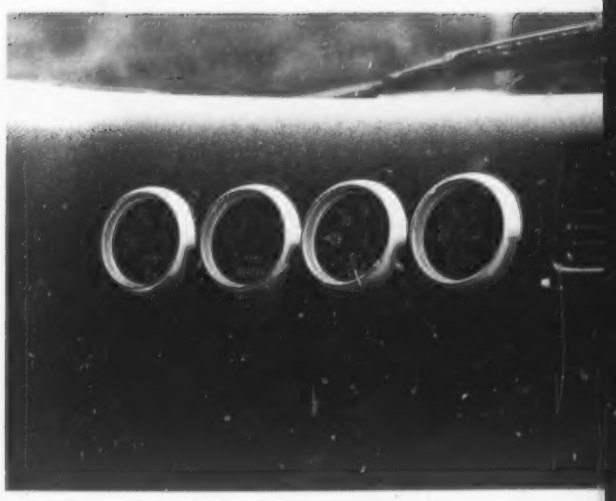
"The EPA (Environmental Protection Agency) has caused a lot of changes," he said. "Of course there have been regulations which were written down before but mostly they weren't enforced. Not any more. We've got to have our parts tested now. Business in things like chrome air cleaners could well go away because of EPA regulations. In a couple of years it's possible that you won't be able to change anything that comes as original equipment on a vehicle. Sure,

PERFORMANCE BUYERS HAVE HIGHER INCOMES

Household Income	% of All
Under $10,000	(9%)
$10-20,000	(17%)
$20-30,000	(18%)
$30-50,000	(28%)
Over $50,000	(18%)

PERFORMANCE PRODUCT BUYERS AND ALL MAINTAINERS DIY THE SAME

All vehicle maintainers	83% DIYers
Specialty equipment buyers	81% DIYers



that's still a couple of years away but already we're looking at other avenues besides parts that affect emission like dress up and wheel items."

Indeed, many state governments as well as the federal government now take modifications that affect emissions seriously. And, well they should since, according to Burroughs' figures almost a third of performance buyers (31%) admit to having removed some of their cars' emissions control equipment while a significant 20% admit to having removed *all* of their cars' emissions control equipment.

The Performance Consumer

Specialty and performance product makers and retailers agree that the market is driven by enthusiasts who install their own parts. According to Burroughs over half of the buyers of these products (52%) call themselves "heavy" DIYers who are likely to do as much as a complete engine rebuilding job.

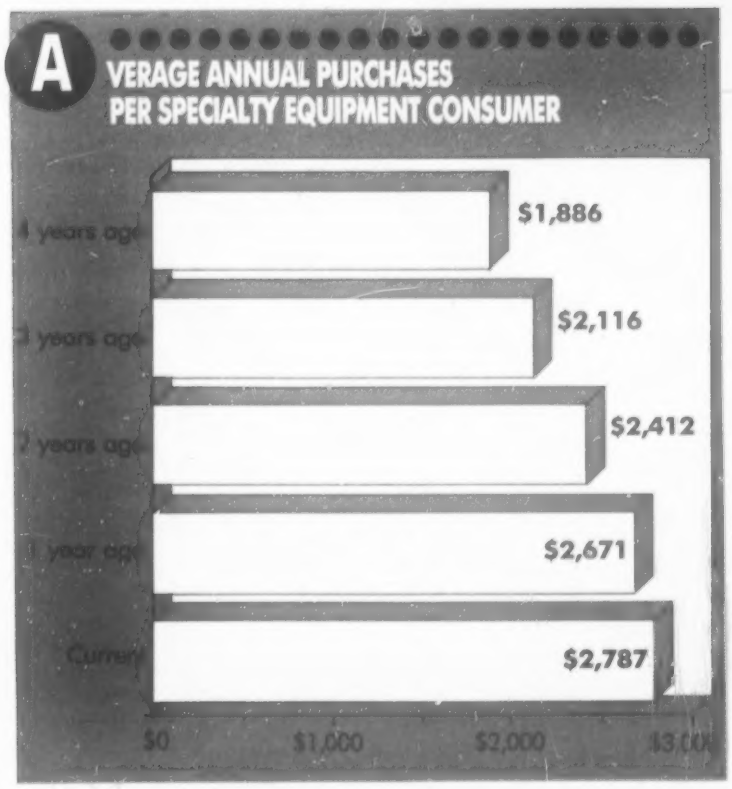
Figures gathered by SEMA for the group's 1991 *Market Study* reflect some of the major changes in the performance consumer market.

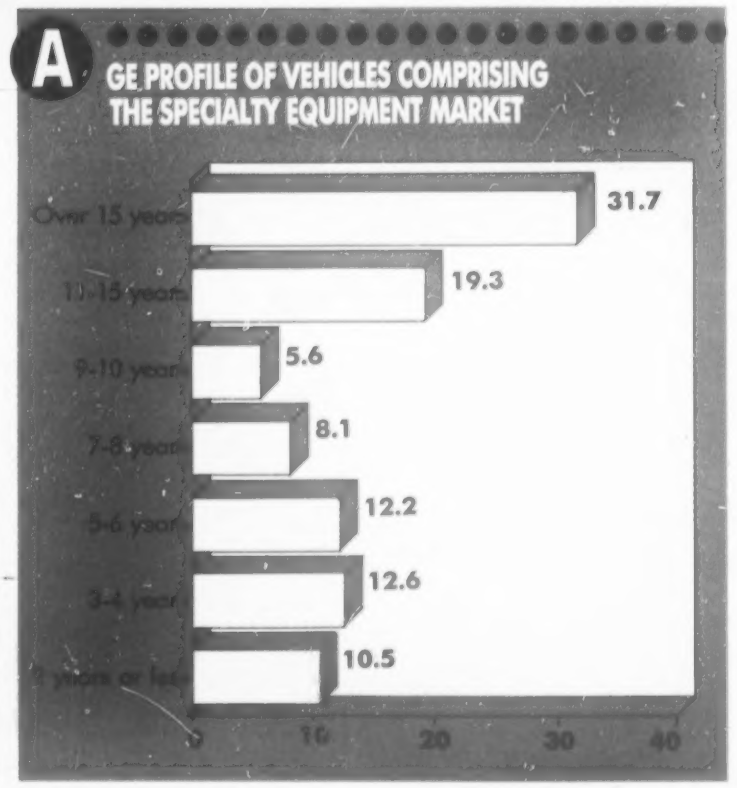
According to the study, the age of the typical performance buyer has changed radically in a relatively short time. Over half are over 30 years old, while just nearly one third (28%) are between 30 and 39 years old, compared to only a quarter in that age group just two years ago. Today the average buyer is around 34 years old, compared to two years ago when the average buyer was 31 years old. Indeed, according to Burroughs, almost a quarter of performance and specialty product buyers are between 41 and 50 years old.

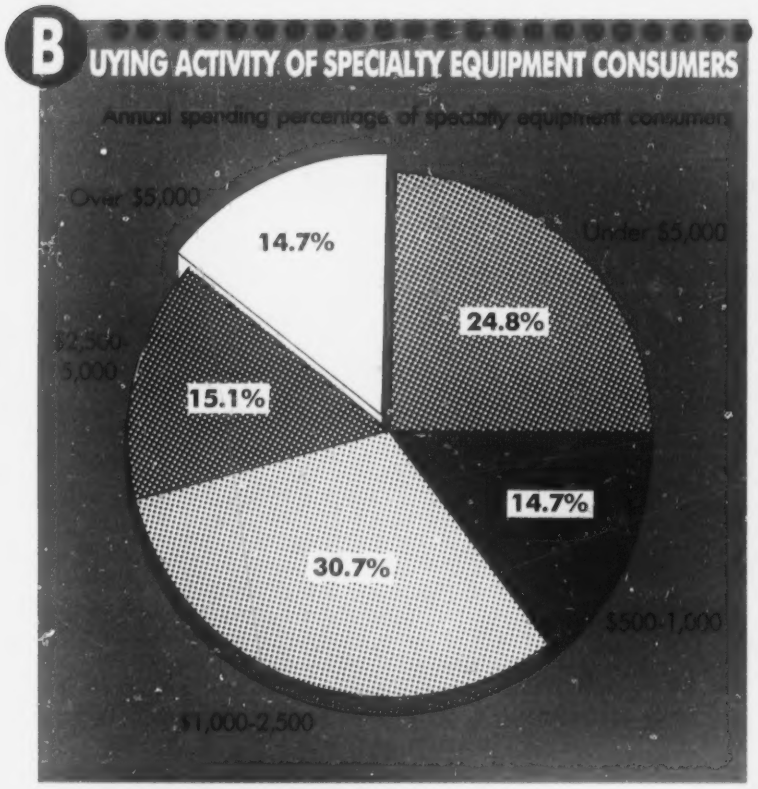
This affects the performance retail business since traditionally older consumers are less prone to do automotive DIY work. However, manufacturers and retailers alike still feel that most true performance buyers are still DIYers.

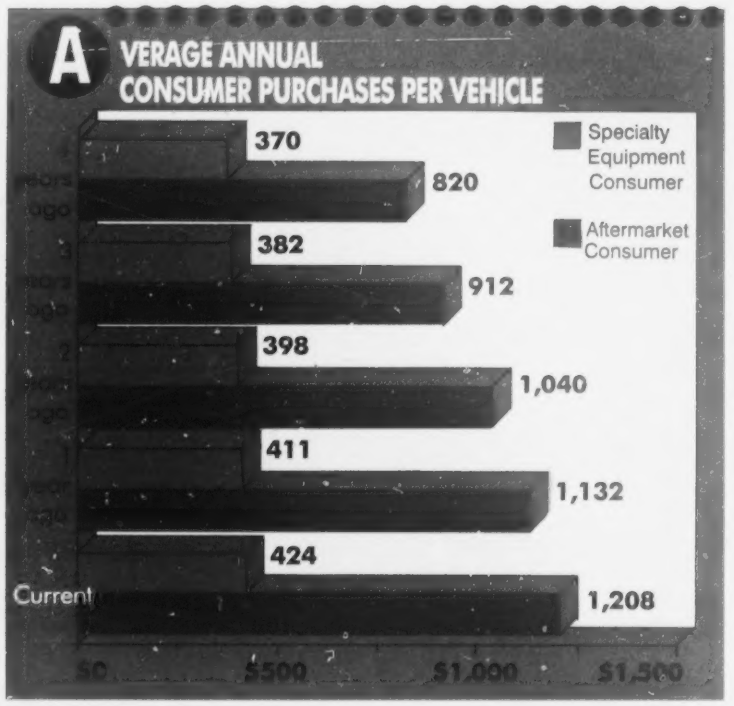
For example, a spokesman for one specialty equipment company, however, said that his company's research indicated that around three quarters of all performance camshafts, to name one typical specialty product, are sold to DIYers. These buyers don't have newer, computer-run cars, but have older or racing cars. "That's why the guy in our booklet has dirty hands," he said. "We insisted on it."

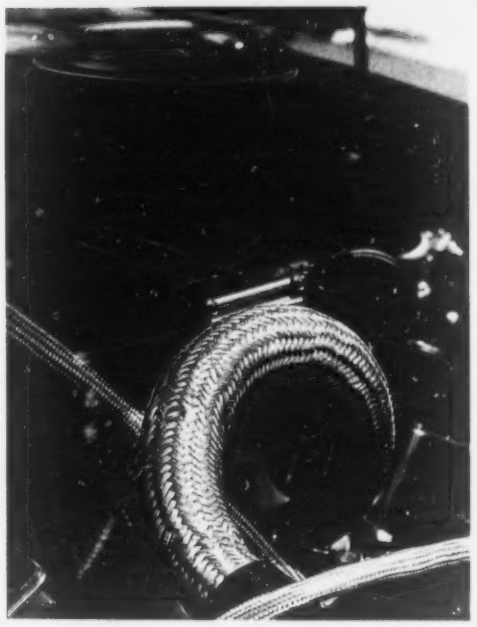
However, as vehicle technology changes in











the future professional installation of performance parts is bound to grow in importance in driving the industry. According to Burroughs, almost a third (28%) of performance enthusiasts who have computer-controlled cars don't modify them because it's to complicated to do so. Another 23% say it's too expensive, while 16% don't want to make changes that could effect their long-term warranties.

And, according to Burroughs, only 20% of performance and appe..ance part buyers have replaced their car's on-board computer themselves.

Into The Future

So, besides considering professional installation and increasing an emphasis on dress-up items as opposed to performance modification items, what can a specialty retailer do to survive? According to Burroughs there are a number of other positive steps he can take.

- Innovate: "Consumers want something different and exciting."
- Keep it simple: "Providing an easy installation, factory hardware and connectors, and simple-to-follow instructions will make a big difference."
- Know your distribution: "Some products are best sold through the multi-step distribution system; others through direct mail."
- Know the rules: "You may actually undermine the industry if you try 'avoidance' measures."
- Communicate: "Advertising, public relations, and promotion are important tools for the accessory marketplace."
- Avoid cost-based pricing: "Always price to market demand."
- Avoid low price marketing strategies: "These are easily countered and produce only a low image for the product with low margins and attract only price buyers."
- Stress quality. "Set tangible goals for yourself. Research your market and measure your results." ■

PERFORMANCE BUYERS AND ALL MAINTAINERS ARE EQUALLY EDUCATED

level of all vehicle maintainers across the country.

Less than HS grad	16%	7%
HS Grad	31	36
Some college	25	25
College grad or more	28	28

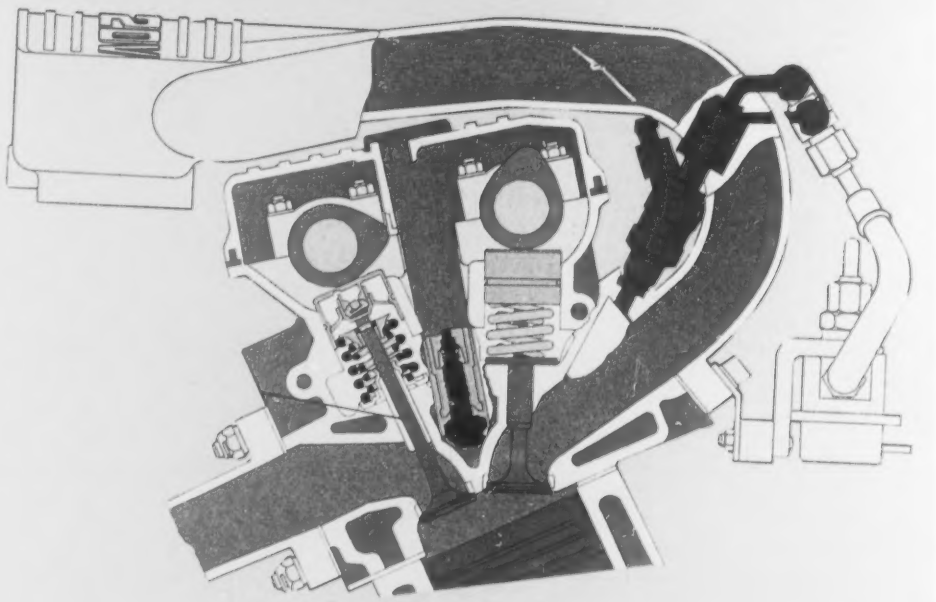
FINDING GROWTH IN:

FUEL INJECTION PARTS & SERVICE

As the carburetor heads into the sunset, what kind of replacement is fuel injection going to be?

by **Edward L. Kaufman,**
Contributing Editor

Edward L. Kaufman is president of Lindsey-Kaufman Co., a marketing consulting firm specializing in the automotive and truck aftermarkets. Inquiries for additional information should be sent to him at: Lindsey-Kaufman, Tenafly, NJ 07660 (201 567-6158.



Manufacturers of DIY-type fuel injector cleaners and kits and chemicals for professional pressurized cleaning report double-digit increases in sales. However, for manufacturers of electronic fuel injection (EFI) system hard parts sales have increased much less rapidly than expected around 1985-87. In 1987 manufacturers of such fuel injection system parts as fuel injectors, fuel pumps, fuel pressure regulators, idle air speed controls, fuel injection system filters, oxygen sensors, MAP sensors and TPS sensors were expecting growth of about 20% per year for the 1987-92 period. That rate of growth appeared realistic based upon the rate of buildup in the number of fuel injected vehicles. But, for EFI parts manufacturers at least, that has not been the case. One parts manufacturer says, "We are just beginning to see movement on some items. Because our expectations were too high we had more parts in the pipeline than were needed."

We have confirming reports at the service dealer level. Repair shops, at least those which have made the necessary investments in technician training and diagnostic equipment to be able to tackle EFI/driveability work, are getting calls for service. But this does not necessarily require high volume replacement of parts.

Opportunities In EFI Service

Bill Sauer, head of Autoline Telediagnosis, a hot-line service for repair shops, says, "We find that many of the problems with fuel injection systems relate either to bad electrical connections – wires rusted out or abraded – or plugged injectors because of bad fuel." He suspects that many times injectors are replaced unnecessarily. That is, replaced when the shop might have solved the problem by proper cleaning. On the other hand Sauer says, it is also possible that thousands of fuel injected vehicles have EFI parts which ought to be replaced and which are not because no one has adequately checked the vehicle's performance.

Some observers of the aftermarket believe that there has been a reduction in fuel injector problems because of improvements in fuel quality. One West Coast shop owner and skilled diagnostician says, "There may be some improvement in the fuel, but we are still seeing many problems relating to fuel. My guys are removing a lot of carbon and coke from upper cylinders." This same garage owner says that the movement to fuel injection has been very good for shops like his which employ high priced, highly trained technicians. "People are coming to us because they know we can do the work." Apparently there is faster growth in labor dollars than in parts dollars. "Over time we are replacing many kinds of fuel injection system parts, including fuel pumps, pressure regulators, idle air controls and sensors, but the quantities are not high."

The parts manager for a large tune-up/engine performance franchiser says, "We used to stock replacement parts for fuel injection systems, but the turnover was so slow we discontinued them. However we are moving a lot of fuel injector cleaner. Our shops are getting lots of calls for that service."

Fuel Injection Cleaners And Equipment

BWD Automotive Corp., Franklin Park, IL, a bread line supplier of fuel system and ignition system parts, also markets kits for professional cleaning of injectors. The kits include the rubber hoses and brass fittings needed for flushing concentrated solvents through the fuel rails. BWD reports that sales of the adaptor kits are moving briskly. Wynn Oil Co., Azusa, CA, markets both kits and chemicals to professional shops through its X-Tend Division. Gerry Miles, sales manager for the X-Tend Division, says that, "Our sales of fuel injector cleaner for professional use are up 30% over 1990."

Most manufacturers of fuel injector cleaners offer two grades: a "keep clean" solvent which can be poured into the fuel tank for regular preventive maintenance, and a more concen-

trated "clean up" solvent for problem solving. That is, removing build up of deposits on fuel injectors.

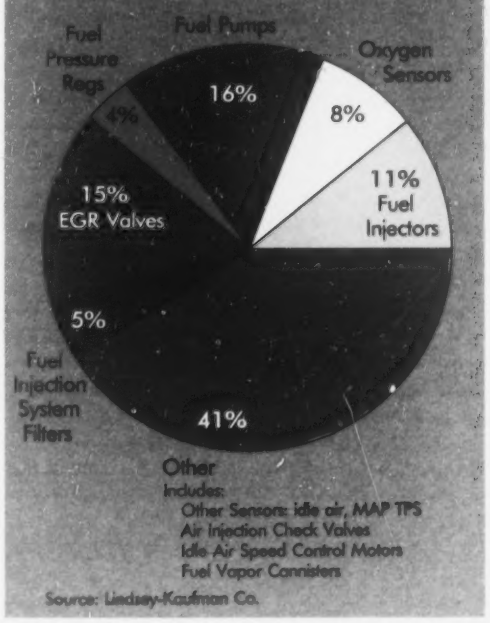
At X-Tend, Gerry Miles explains that, "Because our professional clean-up solvent is so concentrated it cannot be simply poured into the fuel tank, that might not be good for the tank liner. Instead, this type of cleaner enters the system through the fuel rail. Some manufacturers of professional fuel injector cleaner use aerosol cans attached by hoses to the fuel rail. We offer a barrier package. Like the aerosol package it is a throw-away."

Virtually every chemical manufacturer in the automotive aftermarket offers DIY market fuel injector cleaners. In the DIY market as well as the professional market it is customary to offer a fuel injection "maintenance" product designed to prevent buildup of deposits on injectors, and a higher priced concentrated solvent designed as a problem solver.

One manufacturer says, "Our sales in this category have grown very nicely. However, frankly, we expected that at the rate of buildup in the number of fuel injected vehicles our sales would be growing over 15% per year by now." Another manufacturer says, "Fuel additives have been a very good category for us. We include in this category compounds for fuel injector cleaning, carburetor and choke cleaners and engine tune-up. As a group these chemicals have grown 12-18% per year. They have held up better than our other chemicals in the soft economy of 1991."

At First Brands Corp., Danbury, CT, vice president/marketing Rick Bowen says, "We got into the fuel injector cleaner business in 1986 and our sales since then have grown rapidly. In fact, fuel injector cleaner now accounts for half of our fuel additive sales—and those sales have tripled since 1986." First Brands offers its fuel injector maintenance product in 8-oz. and 12-oz. containers. It is introducing a quart-size package.

Composition of the Market for Electronic Fuel Injection System Replacement Parts



Source: Lindsey-Kaufman Co.

Why have sales of replacement parts for EFI systems been so much slower than sales of professional and DIY cleaning chemicals? Manufacturers offer these explanations:

• Reliable solid-state devices. EFI systems have proven to be very reliable. In general, solid-state electronic components tend to be more durable than mechanical components.

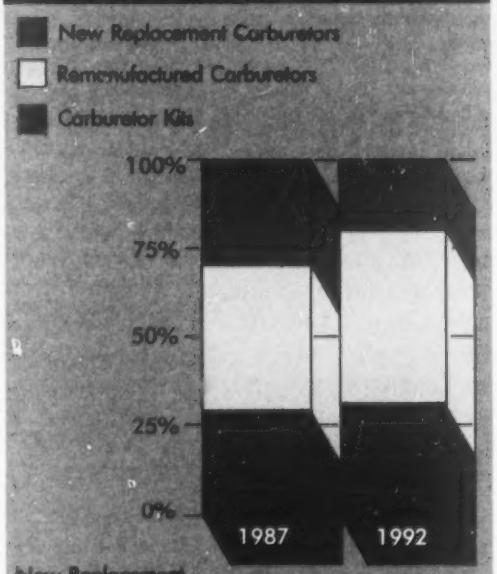
• Improvements in parts design. The early-to-mid 1980s injectors tended to clog easily because the apertures were small. The newer designs have larger apertures and better seals. There have also been improvements in oxygen sensors. Located in a harsh environment (the exhaust system) they still fail—but not as frequently as a few years ago.

• Better quality gasoline. This may be a major factor. Today, most grades of premium gasoline and some grades of regular gasoline include detergents designed to prevent buildup of deposits on injectors.

If oil companies add detergents to their gasoline is there really any need for aftermarket fuel injector cleaners and cleaning kits? The subject is somewhat controversial—perhaps even within oil companies.

The continued fast growth in sales of professional and DIY fuel injector cleaners speaks for itself. Clearly, many thousands of vehicle owners sense a benefit in thorough cleaning of injectors and/or regular application of "keep clean" chemicals. Some chemical manufacturers suggest that one reason there continues to be a need for aftermarket fuel injectors is that oil refiners have to design their products to meet "average conditions." Therefore, there are likely to be times and places where severe conditions will require more cleaning power. Also, even though oil refiners buy additives on a volume basis they are still expensive. In a very price sensitive business every additional penny charged for a gallon of gasoline means loss of customers to competition. So there is reason to believe that refiners do not use all the detergents they might. Finally, although there is a consensus that average fuel quality has improved, many thousands of gallons of lower grade gasoline are sold which contain very low levels of detergents. An owner of a fuel injected vehicle who bought too many gallons of "bargain gasoline" might wind up with fuel injection system problems, including deposits on upper cylinders as well as injectors.

Estimated Retail Sales of Replacement Carburetors and Carburetor Kits



	1987	1992
New Replacement Carburetors	$380	$370
Remanufactured Carburetors	$590	$830
Carburetor Kits	$390	$530
Total	$1,360 Million	$1,730 Million

Source: Frost & Sullivan, Inc.

Scope Of The EFI Parts Market

One of the things which complicates discussion of the market for EFI system parts is that, as yet, there is no standard definition of the system. Some definitions include the electronic engine control and others do not. In fact it is difficult to separate the fuel system, ignition system, and emissions control system because failures in any of these systems, or the electrical connectors, can affect the instruction of the engine computer on the air-fuel mixture.

Items which are clearly part of the EFI system include the fuel injectors, fuel pumps, fuel pressure regulators, fuel injection system filters, fuel vapor canisters, idle air speed control motors, air injection check valves plus a variety of sensors, including oxygen sensors, MAP sensors, throttle position sensors, temperature sensors and idle air sensors.

In a 1987 study Lindsey-Kaufman Co. conducted of this market we included EGR valves (also part of the emissions control system) because they affect the air-fuel mixture.

Accompanying this article is a pie chart which shows our estimates on the composition of the EFI parts market. Note that the fuel injectors per se account for only about 11% of the market. The estimated percentages are based upon Lindsey-Kaufman's 1987 study. At that time, the market as defined in the chart was estimated to have sales, at the manufacturer's level, of slightly over $100 million. That would have meant sales of the retail level of about $280 million. In 1987 an estimated 75-80% of those retail sales were believed to be held by car dealers' parts and service departments. Lindsey-Kaufman expected that between 1987 and 1992 car dealers would gain sales in absolute terms but lose a considerable amount of market share to shops which committed themselves to investments in technician training and diagnostic equipment. We included in that category some of the larger, better managed independent garages, some of the tune-up/performance specialists and some of the installer chains, including tire company stores and certain mass merchandisers.

How large is the EFI parts market as of the end of 1991? It is hard to give a precise estimate because we have not had the opportunity to update the 1987 research. At a guess, retail sales in 1991 were probably over $300 million and below $400 million. ■

A further analysis of the fuel injection market will appear in a future issue.